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TRANSPORTATION RATES AND ECONOMIC DEVELOPMENT IN NORTHERN ONTARIO

TORONTO, March 29 - The regulation of highway carriers by the Ontario Highway Transport Board is described as the worst of all possible systems by Prof. Norman C. Bonsor, Department of Economics, Lakehead University, in a research study released today by the Ontario Economic Council. "Trucking rates in Ontario are the second highest in Canada," states Bonsor. He also shows that Ontario transportation rates are higher in general than any other province except Quebec.

The purpose of the study was to examine the impact of transportation costs on regional economic development, with special reference to Northern Ontario. His findings are applicable to other areas across Canada.

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Bonsor shows that rail rates are inversely correlated to the percentage of competition in the trucking industry. Where a regulatory body such as the Ontario Highway Transport Board can control entry to the industry, truck freight rates rise to artificially high levels and rail freight rates correspondingly rise to high levels because of lack of competition.

Rail rates in Alberta, for example, are lower than Ontario rates because railways must meet competition from truck carriers and truck carriers must meet the competition of any entrant into the open Alberta trucking market.

"In Ontario," states Bonsor, "entry into the for-hire trucking industry is controlled by the Ontario Highway Transport Board. To acquire a licence for a specific route, the applicant must either purchase an existing carrier's licence or obtain one from the Board. The criterion for granting or not granting a licence is that of 'public necessity and convenience'. From the available evidence," concludes Bonsor, "entry into the industry appears to be very difficult."

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The federal Transportation Act of 1967 permits the setting of rail freight rates within a wide legal range, with the exception of special rate schedules for carriage of grain. The relationship between high truck rates and high rail rates is, Bonsor states, partially the result of this ability of rail carriers to adjust their rates to meet those set for their major competition.

An Interim Report on Freight Transportation in Canada, the 1975 Transport Canada study which was to serve as the basis of the federal government's new transportation policy, alludes to the existence of the rail-truck rate relationship, Bonsor states.

To some degree, higher rail freight rates in Ontario and Quebec are used to cross-subsidize shippers in other areas of Canada, states Bonsor. Most of the $100 million per year loss on the Crow's Nest Pass rates are borne by shippers of other commodities, frequently in Ontario and Quebec. Bonsor cites other studies of Canadian transportation rates and regulatory practices which concur with this and other of his findings.

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Bonsor concludes that higher freight rates, whether artificially high or not, do not contribute to the economic development of areas such as Northern Ontario. "Rates for shipments originating in Northern Ontario destined for other parts of Canada," he states, "are significantly lower than rates for shipments originating in other parts of Canada destined for Northern Ontario." Bonsor concludes that this rate structure discourages the establishment of secondary manufacturing plants within the region.

"The promotion of vigorous competition in the trucking industry is, from a practical viewpoint," asserts Bonsor, "easier to achieve than the enactment of a transportation subsidy designed to eliminate some of the transportation cost disadvantages of a Northern Ontario location."

The Ontario Economic Council, established in 1962 as an independent advisor to government, undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario and to support the advancement of all sectors of the province.

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NOTE: Selected quotes attached.

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<u>Transportation Rates and Economic Development in Northern Ontario</u>

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Also available at the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8.

Price: $5.00

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ABOUT THE AUTHOR

Norman C. Bonsor is Assistant Professor of Economics at Lakehead University in Thunder Bay, Ontario. He is a specialist in transport economics and public finance theory. He has authored papers on the mining industry in Canada, allocation of recreational resources and pricing strategy for international air carriers.

Prof. Bonsor was born in England and studied at the University of Bradford. He received his M.A. from the University of Connecticut and is currently completing a Ph.D. at the same institution. He joined Lakehead University in 1970.

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TRANSPORTATION RATES AND ECONOMIC DEVELOPMENT IN NORTHERN ONTARIO

- By Norman C. Bonsor

SELECTED QUOTATIONS

"A study by the Ontario Ministry of Transportation and Communications found that one of the reasons for high truck rates on certain routes was the lack of intramodel competition. The absence of vigorous competition in the Ontario trucking industry has far-reaching consequences for the over-all level of transportation costs. Since rail carriers actively pursue a value-for-service pricing principle, rail rates will be higher in the absence of competition in the trucking industry. Restrictions on the entry of carriers into the Ontario highway trucking industry thus can be seen as one of the causes for high freight rates - both road and rail - in the province." (Page 69)

"Our analysis indicates ... that the existing structure of freight rates discourages the establishment of secondary manufacturing plants within the region." (Page 69)

"... the rates for shipments originating in Northern Ontario destined for other parts of Canada are significantly lower than rates for shipments originating in other parts of Canada destined for Northern Ontario." (Page 66)

"In Canada, especially with rail transport, there is an identifiable imbalance in traffic flows, which takes two forms: the major flow is East to West, and superimposed on this is a major flow to large centres from small centres." (Page 38)

"With respect to the Upper Lakes, an investment in container handling facilities could not be economically justified under existing conditions. Compared with conventional port facilities container facilities are highly capital-intensive. In order to utilize the facilities efficiently, a high rate of throughput is required. No port on the Upper Lakes can generate sufficient volume to warrant container facilities." (Page 22)

"There is insufficient statistical information on railways to permit an analysis of regional cost differentials. However, it would seem likely that such differentials would be small, especially as labour unions in the industry bargain for wages on a national basis." (Page 38)